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NATIONALISM VS. THE MULTINATIONALS

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Since the end of World War II, there has been an expansion of international business and international services on a scale that was never contemplated. During this period, new political states have come into being in all corners of the globe. The result has often been a clash between two opposed ideologies, since the new states have tended to grow up in former colonial empires and to follow an ideology not always consistent with the capitalism of America and Europe. Yet, the international companies have found it necessary to do business in these new countries, while the countries themselves have found it helpful to receive the investment and technological know-how that international business can provide.

Arising from this situation, a key question faces political and business leaders today: what should be the relationship between the political state and the ever-increasing number of international business firms?

It might be interesting to retrace the historical position of the political state and the international corporation. The latter is not a recent concept. Many major international companies had grown to maturity in the 1920's and 1930's. However, in most cases, they were operating either within colonial empires or within "Western spheres of influence," and there were rarely any obvious clashes between their interests and those of the governments of the countries in which they were operating. Indeed, it was not until the late 1930's that the first major clash between a state and a multinational business firm took place, when the government of Mexico nationalized the oil companies operating there. (It is an interesting observation that today Mexico is viewed as one of the more stable places in the developing world for investment by multinational companies.)

Since World War II, however, the old colonial empires have largely disappeared and have been replaced by many independent nations, whose leaders have often tended to see business investment by western dominated firms as a form of neo-colonialism. This has created a situation in some of these developing countries where the virtues of all things nationalistic are extolled and all things international are rejected. Within this hostile climate, it has become difficult for international businesses to operate successfully, particularly with the ever-present threat of nationalization hanging over them.

It is not, however, only in the new nations that the multinational company is running into trouble. The older nations of Europe are also concerned about how much of their economy is controlled by companies whose head offices are outside their national boundaries.

Consider for a moment, the subsidiary of a typical international company. Like companies operating only within national boundaries, it will be judged by its overall performance, by its contribution to the profits and objectives of the company as a whole. Therefore, it must often put the wider interests of the company above its own. This obviously raises important issues of principle between the international company and the state. In many under-developed countries, a government will insist on a local plant as a condition of entry to its market, and will impose stiff tariffs that make local production essential.

As new nations try to achieve economic independence, regional integration is taking place, as it has among the older nations. With the development of the Andean common market and the Central American common market, the nations of Latin America are exploring the path followed by Europe. The nations of Africa and Asia have also developed regional co-operative groups. The poorer nations of the world have come together primarily in the United Nations Conference on Trade and Development (UNCTAD). The richer countries are using the Organization for Economic Co-operation and Development (OECD). Within these groupings, countries are developing a common strategy not only in their relationships with each other but also in their relationships with the multinational companies. They desire particularly to obtain stronger central governmental control over the major companies operating within their own geographic region.

Behind all of this, of course, are major forces in the international business community, and across a broad spectrum of the population, that seek a continuous evolution in the international approach to business. Although the short-run effect of nationalism may prompt some international companies to operate as much as possible within the developed countries, the location of the world's resources ensures that many such companies will continue to co-exist with the newer nations for a long while to come.

Conflicts of Interest

The leaders of a developing nation are often concerned about the decisions that will be taken by the "faceless men" in charge of an international company based thousands of miles away. Such decisions can, for example, have a severe impact on the balance of payments and even the basic economic life of their nation. For example, consider the financial field. The international company's headquarters can be expected to pursue a global interest. To achieve these global objectives, however, may be damaging to the nation within whose boundaries the firm is operating. Such objectives could include the minimization of exchange risks, the maximization of tax avoidance, the maintenance of high profits at the home base to pay high dividends, and accumulation of large reserves to avoid seeking outside financing. In most cases, a company does not have a single clear objective but a mixture that changes with the circumstances. And often the objective set by headquarters will take precedence over the local interests of the individual subsidiary and the country in which it is based.

International companies may influence exchange rates, especially in small countries, when they move funds from one currency to another. They may, for example, significantly affect a country's balance of payments by changing the prices at which goods are transferred from one subsidiary to another. Switching export orders from plants in one country to those in another can have an important effect on the balance of payments. National growth rates can depend on which country an investment in new plant and machinery will be made. Thus, every decision involves a choice among various national interests, and often a natural conflict occurs between the companies and the governments. In financial matters, the principal fear of companies engaged in international business is that they will lose their money because of factors outside their control. They are concerned about restrictions on the repatriation of earnings and about any change in the value of currency. In the present economic environment, these fears are understandable.

The question then appears to be whether or not a political state can control a large international operation. The smaller state does seem to have a weak hand when dealing with an international company, particularly in financial matters. A government is concerned primarily with its own national interest, whereas each company can pursue a coordinated policy for dealing with all governments. Moreover, governments know that they must be careful; they can control the activities of the local subsidiaries within their countries as tightly as they please. However, if the controls are too tight in a particular country, the companies may be less willing to add to their investments there. A government may always use its ultimate weapon, nationalization, but this is very much a control tool of the last resort.

To maintain its national independence, many a government considers a resident foreign subsidiary to fall within its jurisdiction. Therefore, it will impose whatever controls it deems necessary. These controls might cover: natural resources, public utilities, and essential services such as banking and communications, customs and imports, foreign exchange, basic manufacturing (e.g. iron and steel), movement of capital, screening and approval of proposed foreign investment, foreign equity participation in local enterprises, immigration and foreign labor, takeover bids, tax differentials between local and foreign enterprises, and regional groupings of nations in which specific controls over multinationals are given to a central bureaucracy.

As more and more governments are implementing the above controls, the multinationals have been taking the following steps:

1. Utilize local partners and offer government agencies a participation in joint ventures. The multinational thus owns only a portion of the operation, with the control resting with local partners.

2. Train local staff to fill the senior management positions. The days of staffing overseas subsidiaries with expatriates are fast disappearing, except for specific, short, training periods.

3. Investigate more than the cost of labor in a country where investment is proposed. Nowadays, a detailed review of tax incentives, controls over capital movement, and nationalization history tend to take priority.

4. Find locations where a reasonably fast return of capital can be obtained. With the relative instability of many governments, the multinational companies either flock to stable areas of the world or look for a location where the incentives are attractive (e.g., return of investment in four years).

5. Study how governments are run and who runs them. Because legislation is often aimed at it, directly or indirectly, the multinational company must maintain a pipeline to the decision-makers in each country. Coupled with this is the ability to mount a well-organized lobby on matters that could affect the well-being of the company.

6. Expand its "good neighbor" policy. The combination of nationalism and "consumerism" has prompted the multinational to spend time and effort in such things as antipoverty campaigns and supporting charitable organizations, to prove that it is, indeed, a good neighbor.

Normally it is extremists that make the headlines. The opponents of the international corporation point to the alleged interference of those companies in the political affairs of other nations. Others point to the sameness of MacDonalds, for example, in Tokyo and Lima as well as in New York, in order to decry the pervasive influence of the international corporation. On the other hand, the defenders of the international corporation point to the nationalization carried out by the Allende government in Chile as indicative of the problems encountered in dealing with certain nations. However, while excesses occur on both sides, there is little doubt that both the international company and the nation state are going to be with us for a long while and that, in general, each offers sufficient advantages to the other to ensure that they will continue to work together.

Conclusion

In theory, the international company has a sound economic objective: to allocate use of the world's skills and resources in order to achieve the maximum in both productivity and profitability. On paper, there is nothing wrong with this. Theoretically it achieves high efficiency in the use of the world's resources, with a corresponding net gain to mankind as a whole. Difficulties do arise when the international business view does not coincide with that of the national government. However, with the inexorable logic of its basic economic contributions, the international firm can be expected to press ahead wherever it can perform effectively. Against this, there may be, in the short run, a stiffening resistence on the part of many nations, which see a challenge to their nationalism and self-esteem in the steady invasion of the international company. △

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